



# Judicial Council of California

## Administrative Office of the Courts

Trial Court Financial Policies and Procedures

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# **REVENUES AND EXPENDITURES**

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## Revenues and Expenditures

### 1.0 Purpose

The purpose of this policy is to establish uniform accounting guidelines for the trial court to record revenues and expenditures associated with court operations.

### 2.0 Policy Statement

The trial court shall account for its resources using the Modified Accrual Basis of accounting. Revenues shall be recognized in the current period to the extent that they are measurable and available to liquidate current liabilities. Expenditures shall be recognized in the accounting period during which goods are received or services are rendered.

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### 4.0 Application

This procedure applies to all trial court employees and officials who are responsible for or participate in the financial operation of the court, the

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accounting for court revenues and expenses, and the collection and disbursement of court funds.

## 5.0 Definitions

1. **Accrual Basis.** The accrual method of accounting recognizes transactions when they occur, regardless of the timing of related cash flow. Revenues are recognized when earned and expenses when incurred.
2. **Encumbrances.** Obligations in the form of purchase orders, contracts, and other commitments. These may include purchase card transactions, purchase orders, or contracts that are chargeable to a fund and for which part of the fund is reserved. The fund remains encumbered until payment is made, or the obligation expires, or cancellation occurs, at which time some or all of the encumbrance is reversed. An encumbrance is not an expenditure or a liability, but merely a reserve of funds. Expenditures are recorded when, and if, goods are actually provided or services are actually rendered.
3. **Expenditures.** The incurrence of an actual expense in accordance with governmental authority. Expenditures shall be recognized in the accounting period during which goods are received or services are rendered.
4. **Fiscal Year.** A 12-month period, from July 1 to June 30, to which the annual operating budget applies and at the end of which the trial court determines its financial position and the results of its operations.
5. **Fund.** A fiscal and accounting entity with a self-balancing set of accounts. A fund is established to record cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. A fund allows for the segregation of financial activities for the purpose of carrying on specific activities or

attaining certain objectives in accordance with special regulations, restrictions, or limitations.

6. **Generally Accepted Accounting Principles (GAAP).** Uniform minimum standards and guidelines for financial accounting and reporting which govern the form and content of the financial statements of the entity. GAAP encompass the conventions, rules and procedures necessary to define accepted accounting practices at a given time. They include not only broad guidelines of general application, but also detailed practices and procedures.
7. **Government Accounting Standards Board (GASB).** The authoritative accounting and financial reporting standard-setting body for government entities.
8. **Modified Accrual Basis.** The accrual basis of accounting adapted to the governmental fund type measurement focus. Under the modified accrual basis, revenues are recognized when they become both *measurable* and *available* to finance expenditures of the current period. *Available* means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized when the fund liability is incurred. All governmental funds, expendable trust funds and agency funds are accounted for using the modified accrual basis of accounting.

## 6.0 Text

### 6.1 Measurement of Resources and Basis of Accounting

The majority of the trial court's financial activities are accounted for in the "Trial Court Operations Fund", which is essentially a general fund under the governmental funds classification (see Policy No. FIN 3.01 – Fund Accounting). The trial court also may provide financial services including collection and distribution of revenues such as fines, penalties,

etc., on behalf of the county. These activities are accounted for in “Revenue Collection Funds” which are essentially agency funds under the fiduciary funds classification. Additionally, the court receives grants from federal, state and local governments as well as from the private sector. These activities are accounted for in Special Revenue Funds, which are essential special revenue funds under the governmental fund classification. The following sections describe how resources should be measured under these funds and what basis of accounting should be applied.

### 6.1.1 Measurement of Resources

1. Governmental funds (such as the Trial Court Operations Fund and the Special Revenue Funds) are designed to measure the “flow of financial resources”. The objective is to determine whether more or fewer resources will be available for spending in the near future as a result of current transactions. Increases in resources available for spending in the current period are treated as **revenues**. Decreases in resources are treated as **expenditures**.
2. Agency funds (such as the Revenue Collection Fund) are designed for one government agency (the trial court) to collect and temporarily hold resources for another government unit (the County). These funds report assets (due from) and liabilities (due to), but no equity, revenues or expenditures.

### 6.1.2 Basis of Accounting

1. A fund’s basis of accounting determines when a transaction is recognized as a revenue or an expenditure. The basis of accounting for the trial court Operating Fund and the trial court Special Revenue Fund(s) is the **Modified Accrual Basis** of accounting (as defined in Policy No. FIN 5.01 – Accounting Principles).

2. **Revenue Recognition** - Under Modified Accrual accounting, revenues are recognized when they are “susceptible to accrual”. GASB Codification Section 1600.06 explains that revenues are susceptible to accrual when they are both measurable and available. It is not enough that revenue has been earned (measurable). The related cash flow must be available in the current period or soon enough thereafter to be used to pay liabilities of the current period.
  - a. Since the trial court derives most of its revenues from State funding and grant reimbursements, these revenues are susceptible to accrual. All trial court revenues are measurable and available (within a reasonable amount of time) to pay for current liabilities and therefore, should be recognized during the current period.
3. **Expenditure Recognition** – Expenditures shall be recognized in the accounting period during which goods are received or services are rendered.
4. Most trial court purchases or contract commitments are short-term and should be recognized during the current fiscal year, if goods are received or services are rendered. Expenditures associated with long-term contracts covering more than one year may also be recognized during the current fiscal year. If goods are not received or services are not rendered, expenditures may be recorded in the subsequent period.

## **6.2 General Revenue Recognition**

Since the trial court derives most of its revenues from state funding and expenditure-driven grants, virtually all revenues can be accurately measured and expected to be available within a reasonable amount of

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time to pay for current liabilities. Therefore:

- a. The trial court shall recognize revenues during the current fiscal year when they are both measurable and available.
- b. The trial court shall apply the concept of “earnings” to define measurability (i.e. the court is entitled to the funded amounts, the court has rendered the services required by the grants, or revenues have been earned).
- c. The trial court shall use a **60-day** period as the criterion to determine revenue availability. The period starts with the date that the court can accurately measure the revenue and expect payment from the state or other organizations. Under the modified accrual basis, the court may recognize revenue on a cash basis throughout the year and accrue revenue at fiscal year end. At year-end, if revenues are earned but not received, an accrual should be made if the payment is expected within 60 days. Therefore, the 60-day period practically starts with June 30<sup>th</sup> of each fiscal year.
- d. The trial court shall consistently apply the 60-day availability period to recognize revenues in the current period for all of its operations.
- e. Under unusual circumstances, this period may be adjusted to avoid uneven recognition of revenue. For example, payments from the State or Federal government are delayed beyond 60 days due to unforeseeable events outside of their control. In such a case, revenue should still be recognized in the current period to prevent distortions from one fiscal year to the next.

### **6.3 General Expenditure Recognition**

1. Liabilities shall be recognized in the accounting period during which goods are received or services are rendered:
  - a. The trial court shall encumber monies from the Trial Court Operations Fund when the liability is incurred (i.e., a purchase order or contract is issued).

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- b. The court shall recognize expenditures as payments are made to vendor(s).
  - c. The court shall disencumber (reduce) the operating fund as the reserve of funds is reduced or liquidated.
2. For those purchase commitments that are expected to straddle two or more fiscal years, the court shall follow the procedure provided in the example below:

### Example: Three-Year Master Agreement

1. The trial court issues a three-year master agreement (\$10,000) for contracted services with a not-to-exceed dollar amount. The contract does not specify the exact amount that can be ordered and paid for during each period of the contract. Accounting for such contract will be as follows:
  - a. The liability is measurable at the time agreement is signed. An encumbrance entry is recorded for the full amount of the contract.

	<u>Dr</u>	<u>Cr</u>
<i>Encumbrance</i>	<i>10,000</i>	
<i>Fund Balance</i>		<i>10,000</i>

*To encumber funds for the full not-to-exceed amount*

Services are rendered during the current fiscal year. Invoices are paid, and the encumbrance is reduced accordingly. Expenditures are recognized as payments are made. The encumbrance is reduced as the liability decreases.

	<u>Dr</u>	<u>Cr</u>
<i>Expenditures</i>	<i>3,000</i>	
<i>Cash</i>		<i>3,000</i>
<i>Fund Balance</i>	<i>3,000</i>	
<i>Encumbrance</i>		<i>3,000</i>

*To record payments for actual usage and to disencumber funds by the same amounts.*



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- b. At year-end, the not-to-exceed amount of the contract has not been reached. Funding for the current year does not include provisions for three-years of services. In this case, expenditures should be recognized as payments are made. Thus the balance of the encumbrance should be disencumbered and the liability should be reversed.

	Dr	Cr
<i>Fund Balance</i>	<u>7,000</u>	
<i>Encumbrance</i>		<u>7,000</u>

*To disencumber current fiscal year funds for the remaining unused balance of the contract.*

- c. A new encumbrance entry should be recorded at the beginning of the next fiscal year to encumber funds for that year. A new liability should be recorded.

	Dr	Cr
<i>Encumbrance</i>	<u>7,000</u>	
<i>Fund Balance</i>		<u>7,000</u>

*To encumber funds from the new fiscal year for the unused balance of the contract.*

- d. Expenditures will be recorded against the new encumbrance as payments are made and the liability is reduced.
- e. As a result, expenditures are only recognized when payments are made. This approach assumes that the true liability cannot be measured for each fiscal year until the contract is actually used.

## 6.4 Year-End Revenue Accrual

1. Even though trial court financial reporting must be on the modified accrual basis, daily accounting may be on a cash basis as described in section 6.2. Under such circumstances, accrual basis for financial statement purposes is achieved by adjusting the accounts at the

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close of each year. The trial court fiscal year ends on June 30<sup>th</sup>. The court shall perform year-end accruals as follows:

2. Prior to June 30<sup>th</sup>, the court shall:
  - a. Review all revenue accounts related to entitlements and accrue revenues (such as the thirteen installment of state funding) that may not have been received from the state, but which are measurable and available.
  - b. Review all revenue accounts related to expense driven grants and accrue revenues that may not have been billed to date.
  - c. All accruals need to be reversed during the first month of the new fiscal year.

## **6.5 Year-End Expenditure Accrual**

Similar to revenues, expenditures must be reported on the modified accrual basis for financial reporting purposes. The daily accounting basis may be on a cash basis as described in section 6.3. The accrual basis is achieved by adjusting accounts at year-end. The court shall perform year-end accruals as follows:

- a. The court shall review all open purchase orders, contracts and the related encumbrances in an effort to accrue expenditures during the current fiscal year, disencumber funds and liquidate the associated liability to the extent possible.
- b. All open purchase commitments for which goods and services have been delivered or rendered, but not paid, shall be accrued as current year expenditures. This also applies to grant funding.
- c. All contracts straddling two fiscal years shall be reviewed for the express purpose of recognizing expenditures in the current period if it is determined that the services were rendered or goods were received in the current year. The balance of the contracts should be

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closed in the current year and reopened in the new fiscal year along with the appropriate encumbrances.

- d. All accruals need to be reversed during the first month of the new fiscal year.

## 7.0 Associated Documents